

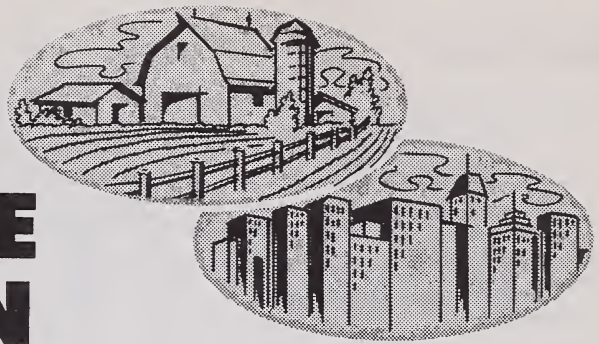
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1967 OUTLOOK ISSUE

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DEMAND AND PRICE SITUATION



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U. S. DEPARTMENT OF
AGRICULTURE

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FEB -3 1967

CURRENT SERIAL RECORDS

Table 1.--Economic factors affecting agriculture

Item	Unit or base period	1965			1966			Oct
		Year	Sept.	July	Aug.	Sept.		
Industrial production <u>1/ 2/</u>	: 1957-59=100	: 143	144	157	158	158	---	
Final products	: do.	: 142	143	155	157	157	---	
Consumer goods	: do.	: 140	141	146	147	147	---	
Autos	: do.	: 183	178	152	142	149	---	
Equipment, including defense	: do.	: 147	149	174	178	179	---	
Materials	: do.	: 144	144	159	160	159	---	
Construction: <u>3/ 4/</u>	:	:	:	:	:	:	:	
Total outlays	: Mil. dol.	: 71,930	72,830	73,827	73,089	72,479	---	
Public construction	: Mil. dol.	: 21,931	22,663	23,766	23,816	23,795	---	
Private residential	: Mil. dol.	: 26,689	26,413	25,115	23,810	23,239	---	
Housing starts, private only	: Thousands	: 1,505	1,453	1,088	1,102	1,073	---	
Manufacturers' shipments, orders, and inventories: <u>2/ 3/</u>	:	:	:	:	:	:	:	
Total shipments, monthly rate	: Mil. dol.	: 40,279	40,173	44,327	44,206	44,044	---	
Durable goods, monthly rate	: Mil. dol.	: 21,020	20,924	23,031	22,874	22,887	---	
Unfilled orders	: Mil. dol.	: 66,068	62,699	76,310	76,942	79,193	---	
Inventory stocks, book value <u>5/</u>	: Mil. dol.	: 68,015	66,267	72,958	74,110	74,805	---	
Durable goods	: Mil. dol.	: 42,324	41,300	45,790	46,814	47,430	---	
Employment and wages: <u>2/ 6/</u>	:	:	:	:	:	:	:	
Total civilian employment	: Millions	: 72.2	72.3	74.1	74.3	74.2	74.2	
Nonagricultural	: do.	: 67.6	67.9	69.9	70.2	70.1	70.2	
Unemployment	: do.	: 3.5	3.3	3.0	3.0	2.9	3.0	
Workweek in manufacturing	: Hours	: 41.2	41.0	41.0	41.4	41.4	41.3	
Hourly earnings in manufacturing, unadj.	: Dollars	: 2.61	2.63	2.71	2.70	2.74	2.75	
Income and spending:	:	:	:	:	:	:	:	
Personal income <u>3/ 4/</u>	: Bil. dol.	: 535.1	552.5	580.0	585.4	589.5	---	
Consumer credit outstanding <u>1/ 5/</u>	: Mil. dol.	: 87,884	83,801	90,650	91,483	91,639	---	
Automobile	: Mil. dol.	: 28,843	28,175	30,680	30,918	30,793	---	
Total retail sales, monthly rate <u>2/ 3/</u>	: Mil. dol.	: 23,662	23,753	25,362	25,657	25,554	---	
Durable goods, monthly rate	: Mil. dol.	: 7,810	7,768	8,106	8,327	8,306	---	
Inventory stocks, book value <u>5/</u>	: Mil. dol.	: 33,957	33,045	35,479	35,263	---	---	
Prices: <u>6/</u>	:	:	:	:	:	:	:	
Wholesale prices, all commodities	: 1957-59=100	: 102.5	103.0	106.4	106.8	106.8	106.2	
Commodities other than farm and food	: do.	: 102.5	102.7	105.2	105.2	105.2	105.2	
Farm products	: do.	: 98.4	99.5	107.8	108.1	108.7	104.4	
Foods processed	: do.	: 105.1	106.7	111.7	113.8	113.8	112.4	
Consumer price index, all items	: do.	: 109.9	110.2	113.3	113.8	114.1	---	
Food	: do.	: 108.8	109.7	114.3	115.8	115.6	---	
Prices received by farmers <u>7/</u>	: 1910-14=100	: 248	249	267	272	270	266	
Crops	: do.	: 232	223	245	241	236	233	
Livestock and products	: do.	: 261	271	285	298	299	294	
Prices paid, interest, taxes, and wage rates <u>7/</u>	: 1910-14=100	: 321	322	334	335	337	337	
Family living items	: do.	: 306	305	315	317	318	318	
Production items	: do.	: 276	277	285	287	289	287	
Parity ratio <u>7/</u>	:	: 77	77	80	81	80	79	
Farm income and marketings: <u>7/</u>	:	:	:	:	:	:	:	
Volume of farm marketings	: 1957-59=100	: 119	140	111	116	136	182	
Cash receipts from farm marketings	: Mil. dol.	: 39,187	3,886	3,279	3,515	4,089	5,400	

Annual data for most of these items for years 1929, 1941, 1947, and 1952-65 appear on page 35 of the May 1966 issue of The Demand and Price Situation.

1/ Federal Reserve Board. 2/ Seasonally adjusted. 3/ U. S. Department of Commerce. 4/ Seasonally adjusted annual rates. 5/ End of year or month. 6/ U. S. Department of Labor. 7/ U. S. Department of Agriculture.

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T H E D E M A N D A N D P R I C E S I T U A T I O N
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Approved by the Outlook and Situation Board, November 3, 1966

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AGRICULTURAL SUMMARY AND OUTLOOK

Realized net farm income for 1966 is estimated at around \$16 billion, some \$2 billion above 1965 and the highest since 1947. Farmers can look forward to another good year in 1967. Although realized net farm income may not quite match this year's high level, it is expected to be well above 1965. With increased off-farm employment opportunities and the downtrend in the farm population, per capita disposable income of farm people is expected to continue around the record 1966 level. Production of livestock and products in 1967 may change little from the 1965 and 1966 levels. With prospects for further expansion of demand, the strong livestock situation is expected to continue into 1967. Utilization of crops in domestic and foreign markets combined is expected to increase in 1967 and exceed 1966 output. Prospects for a further reduction in grain stocks and a sharp cut in the record carryover of cotton point to continued price strength for crops in the 1966/67 marketing year.

General demand conditions affecting markets for farm products have improved markedly during the year. A further gain is in prospect for 1967, but the increase is not expected to match the large gains of this year. A growing population with more income to spend will result in increased domestic demand for food and other farm products. Consumer expenditures for food so far

in 1966 are up nearly 8 percent from a year earlier. This large rise is due in part to the sharp advance in retail food prices last winter and spring. At that time, reduced supplies of pork, eggs, milk, and vegetables were accompanied by a very rapid expansion in consumer income and increased military buying. Retail food prices probably will increase further in 1967. Although the rise is not expected to be as large as the $4\frac{1}{2}$ to 5 percent increase now estimated for 1966, it may exceed the average annual increase of $1\frac{1}{2}$ percent during 1960-65. Sizable production increases now underway for pork, poultry and eggs will increase supplies in 1967. However, per capita beef supplies will likely be smaller next year. Among the food crops, citrus production--for marketing mostly in 1967--is around a fourth larger and larger supplies will be likely for vegetables and potatoes, with average growing conditions. Such increases will temper the pressure of demand on supply and should slow the rise in retail food prices.

Exports of U.S. farm products reached a record high of about \$6 $\frac{3}{4}$ billion in fiscal year 1965/66, rising \$1/2 billion above a year earlier. Commercial sales for dollars rose nearly \$700 million to an estimated \$5.1 billion in 1965/66. Aid shipments to less developed countries were down slightly to about \$1.6 billion. Prospects for total exports in 1966/67 point to another sizable increase, possibly about as large as that of last year. Substantial increases are expected for cotton and tobacco with gains also for soybeans, rice, and citrus products. Feed grain exports rose more than a third in 1965/66, reflecting an expanding world commercial market, adequate domestic supplies and relatively favorable export prices. Despite a generally tighter domestic supply situation and higher prices for feed grains, exports may hold around the record 1965/66 level. A combination of a record world wheat crop and a tighter U.S. supply situation points to a decline in wheat exports of perhaps as much as 10 to 15 percent from the record 867 million bushels shipped in 1965/66. Exports of cotton are expected to rebound sharply from the depressed 2.9 million bales in 1965/66. The improved quality of flue-cured tobacco, the export payment program, and the ban in many countries on imports of Rhodesian tobacco point to larger exports.

Crop supplies available for the 1966/67 marketing year are smaller for a number of major crops. Total crop output for 1966 is estimated 4 percent below last year's record crop. Only slightly smaller crops are in sight for feed grains and hay, wheat, and vegetables. But this year's cotton crop is a fourth smaller than last year's. Larger crops are indicated for soybeans, rice, citrus, and sugar crops. With smaller grain carryover stocks, 1966/67 supplies of wheat and feed grains are down 14 and 7 percent, respectively, from 1965/66. The smaller 1966 cotton crop reduces supplies about 5 percent for the 1966/67 marketing year. Utilization of these crops will probably exceed 1966 output. Accordingly, a further decline in carryover stocks during 1966/67 is likely for wheat and feed grains. Cotton stocks may be down nearly 4 million bales from last August's record 17 million. Grower prices for crops averaged below year-earlier levels until June this year, when early summer growing conditions pointed to smaller 1966 crops for some major commodities. In response, crop

prices strengthened and in the July-September quarter averaged 6 percent above a year earlier. Although crop prices declined seasonally in October, the supply-demand situation in prospect for major crops suggests that prices will be well maintained during the 1966/67 marketing year.

Declining carryover stocks and expanding domestic and foreign markets have promoted a number of actions designed to gear farm output to growing domestic and foreign demand. The recently announced feed grain program for 1967 provides for an increase in the price-support loan on corn from \$1.00 to \$1.05 per bushel, and elimination of voluntary acreage diversion for payment, except on small farms. It is expected that this program, along with similar actions affecting other feed grains, will increase total feed grain acreage some 12 to 15 million acres, from the 120.3 million planted in 1966. Soybeans will continue eligible for planting on permitted acreage without penalty. The 1967 wheat program permits a 68.2 million acre allotment, a third above that of 1966; the 1966 acreage allotment for rice was increased 10 percent. With prospects for 25 to 30 million diverted acres coming back into production in 1967, average growing conditions would give substantially larger crop output, particularly for grains. Larger 1967 crops probably would result in some rebuilding of stocks even with a continued rise in domestic use and exports.

Total production of livestock and products in 1967 may change little from this year's level. Larger pig crops this year are leading to increased slaughter which will continue in 1967. Egg production is also increasing, and the uptrend in poultry production will continue into the coming year. A small rise in milk production is in prospect for 1967. But slaughter supplies of cattle and calves may decline, if producers increase breeding herds as expected in 1967. Overall supply prospects and a further growth in demand should result in another good price and income year in 1967 for livestock producers.

Larger marketings, particularly of crops, and prospects for prices received by farmers averaging close to this year's level well into 1967, point to larger cash receipts. Government payments to producers are expected to be smaller, possibly by around $\$ \frac{1}{2}$ billion, as diverted acreage is returned to production. Gross farm incomes will likely be well maintained around record 1966 levels.

Farm production expenses, on the other hand, will continue to rise, due both to increases in prices paid by farmers and to larger purchases. Larger planted acreage may increase purchases of seed, fertilizer, and fuel. However, the total wage bill may change little as the effect of rising wage rates is largely offset by the downtrend in number of hired workers. But the continued rise in production expenses, even at a slower rate than now expected for 1966, could result in a small reduction in realized net farm income from the high 1966 level.

The value of farm assets continued to rise again this year as farmers' income positions improved. Total farm assets are expected to reach \$273 billion on January 1, 1967, \$18 billion above the previous year. Most of the expected rise is due to the long-term uptrend in farm real estate values,

although gains are likely in financial assets and in inventories of livestock, machinery and motor vehicles. Favorable prices and incomes so far this year, along with the increased needs for capital to enlarge farms and increase capital equipment, induced farmers to increase their indebtedness. But increases in farm assets more than offset the rise in liabilities, and farmers' equities continued to rise.

General Economic Outlook for 1967

The U.S. economy moved closer to full utilization of available resources during 1966 and further expansion is expected in 1967. Gross national product this year will total close to \$740 billion, up about $8\frac{1}{2}$ percent from 1965. The sharp rise in economic activity during the past year has also been accompanied by pressures on supply and by rising prices, especially for food, services, and capital goods. The general price level this year, as indicated by the implicit price deflator for gross national product, $\frac{1}{1}$ is expected to average close to 3 percent above the 1965 level. The price level rose an average of $1\frac{1}{2}$ percent per year between 1960 and 1965. But, the volume of goods and services produced in 1966 is expected to be about $5\frac{1}{2}$ percent above 1965, well above the relatively high average annual growth rate of 4.7 percent between 1960 and 1965.

A generally tight monetary situation has continued throughout 1966 as demand for credit rose rapidly in response to a sharp increase in demand for goods and services, particularly capital goods. The resulting rise in interest rates has affected borrowing costs in most sectors of the economy. High interest rates have adversely influenced residential construction activity, and dampened some capital expansion programs.

Although growth in physical output of goods and services is expected to continue in 1967, the rise probably will not match the relatively large increase of around $5\frac{1}{2}$ percent indicated for 1966. The growth potential of the economy, from current high levels of employment and plant operation, may be closer to the long-term average. The rate of increase in economic activity in 1967 will depend importantly on the turn of events in Vietnam and their impact on other Government programs and on business investment.

Defense spending for goods and services accelerated throughout the past year, and in the third quarter of 1966 was around one-fifth larger than a year earlier. Although decisions on defense requirements for 1967 are still being made, it is likely that some further rise in spending will occur unless there is an unexpected truce. If requirements indicate an accelerated rise in defense spending in 1967, further restrictive fiscal action may be necessary to combat inflationary pressures. The Administration has already indicated its intent to reduce low priority Federal spending. If developments in Vietnam result in a reduction in defense spending, it is expected that Great Society Programs would be accelerated to ease resulting economic adjustments. State and local Governments will continue to increase spending in 1967, possibly more than the uptrend of the past five years.

$\frac{1}{1}$ Gross national product in current prices divided by gross national product in 1958 prices.

Business outlays for modernization and expansion of productive facilities are expected to continue rising during 1967 although the rate of increase is not expected to match the exceptionally large increases of the past few years. With the favorable environment for plant expansion, investment spending has accounted for a growing share of constant dollar gross national product since early 1963 and this year surpassed levels reached at the peak of the 1956-57 capital goods boom. With the economy operating close to capacity, the current investment boom has not only increased capacity but also exerted upward pressure on prices of capital goods. This and the possibility of further substantial increases in investment spending prompted the Administration to request a suspension of the 7 percent investment tax credit and the use of accelerated depreciation on industrial and commercial buildings. These actions were taken in order to dampen incentives for increased investment in plant and equipment and reduce general inflationary pressures.

The homebuilding industry has been beset by high interest rates and shortages of mortgage credit throughout 1966. The supply of mortgage funds has contracted as lending institutions competed for funds to satisfy growing demands for credit. Residential construction activity in the third quarter was down 10 percent from the second quarter level and housing starts were still declining. Future developments in residential construction will depend, in part, on the success of Governmental actions initiated recently to provide more funds for mortgage markets. Prospects for activity in the near-term are not favorable since housing starts and building permits are still declining and the corrective measures instituted probably will take some time to work through the markets.

Rising demand and output in 1966 have led to a substantial increase in employment and consumer income. Real disposable personal income per person in the first 9 months of 1966 was up more than 5 percent from a year earlier. Expanding output, more jobs, and the expectation of a more rapid rise in wage rates will increase consumer incomes in 1967. Consumers' after-tax incomes, assuming no change in present tax rates, are expected to register another gain in 1967, but probably not so large as the increase during the past year. With increases in consumer buying power, domestic demand for food and other farm products is expected to increase again in the coming year.

GENERAL AGRICULTURAL SITUATION

This year will turn out to be the most prosperous for agriculture in over a decade. Total supplies and utilization of agricultural products are in closer balance today than in many years. Again this year, due to expansion of domestic and foreign demand, grain stocks have been reduced further. Only CCC holdings of cotton are large, but a significant reduction is expected in the 1966/67 marketing year. Former large holdings of dairy products by CCC have disappeared.

Farm product prices in 1966 likely will average around 7 percent above 1965 due largely to sharply expanding domestic and foreign demand. Crop prices

for the year may average slightly above 1965 despite lower prices until midyear. Except for wheat, prices for most major crops rose steadily but averaged below year-earlier levels during the first 6 months of the year. Since midyear, although declining, crop prices have averaged above the same period last year; prices of feed grains, oil bearing crops, fruits, and vegetables have been significantly higher. Adverse weather strengthened crop prices in the third quarter. Cotton prices were lower throughout 1966, due in part to the reduced loan rate for the 1966 crop. Potato prices so far this year have averaged 50 percent lower due to 10 percent larger marketings.

Prices for livestock and livestock products in 1966 are expected to average about 12 percent above a year earlier due primarily to reduced supplies of pork, eggs, and milk and rapidly rising consumer incomes during the winter and spring. Livestock prices in the first quarter reached the highest level since 1952, and hog prices in January were the highest for any month since September 1948. Prices currently are running well below the first quarter peak, but are averaging above year-earlier levels. Further declines are expected in the fourth quarter, especially for hogs, broilers and eggs. Per capita supplies of beef through October have averaged above last year's levels, but prices also have been higher. Stronger pork prices earlier this year, as well as higher consumer incomes, have contributed to higher cattle prices so far this year even though supplies have been larger. Broiler and turkey prices, too, have averaged above 1965 levels despite larger per capita supplies. Wholesale milk prices for January-October averaged 13 percent above a year earlier, reflecting tight milk supplies and higher support prices.

Crop Production Down

The October Crop Report estimated total crop production this year down 4 percent from year-earlier levels (table 3). Production of most major crops is down only slightly, but the cotton crop is estimated a fourth smaller than the 1965 crop. Grain sorghum production is currently estimated 9 percent above 1965 levels, and soybeans and rice are each expected to be around 10 percent above last year's crop. Production of tobacco, potatoes, and the principal processing vegetable crops this year are also estimated slightly above 1965.

Although total cropland used in 1966 is estimated 1 percent below last year, poor weather appears to be the major factor in the lower crop production. Crop output per acre is estimated at 120 (1957-59=100) this year, over 2 percent below the 1965 record level. Mid-summer weather was generally hot and dry for most parts of the country. However, crop growth was near normal for the Central and Northern sections. In August favorable weather improved crop prospects somewhat in most areas except the East North Central. In September, rainfall improved moisture conditions and strengthened or maintained prospects for most areas except the South Atlantic and South Central States.

Livestock and Products Output Unchanged

Aggregate livestock production this year is expected to about match the 1965 level (table 3). Although pork supplies will be down a little from 1965

Table 2.--Index numbers of agricultural prices and marketings, 1950-65 annually and 1965-66 quarterly

Period	Prices received by farmers, 1910-14=100				Prices paid, interest, taxes, and wage rates 1910-14=100				Parity				Volume of farm marketings, 1957-59=100			
	:Livestock and :products		:Crops		:Family living		:Production		:ratio		:Total		:Crops		:Livestock and :products	
	Total		Total		Total		Total		Total		Total		Total		Total	
1950	258	233	280	256	246	246	246	246	101		83		85		82	
1951	302	265	336	282	268	273	273	273	107		84		84		85	
1952	288	267	306	287	271	274	274	274	100		88		89		86	
1953	255	240	268	277	269	256	256	256	92		92		95		90	
1954	246	242	249	278	270	255	255	255	89		93		92		93	
1955	232	231	234	276	270	251	251	251	84		96		96		96	
1956	230	235	226	278	274	250	250	250	83		99		97		101	
1957	235	225	244	287	282	257	257	257	82		94		88		99	
1958	250	223	273	294	287	264	264	264	85		101		104		98	
1959	240	222	256	298	288	266	266	266	81		105		108		103	
1960	238	222	253	300	290	265	265	265	80		107		112		104	
1961	240	227	251	302	291	266	266	266	79		109		110		108	
1962	244	232	255	307	295	270	270	270	80		111		112		110	
1963	242	239	245	312	298	273	273	273	78		116		119		114	
1964	237	239	236	313	300	270	270	270	76		118		118		118	
1965	248	232	261	321	306	276	276	276	77		119		120		118	
1965:																
I	238	236	240	318	303	273	273	273	75		100		85		112	
II	250	244	255	322	306	277	277	277	78		92		61		115	
III	250	226	271	322	306	277	277	277	79		122		126		118	
IV	252	221	279	323	307	277	277	277	78		162		210		126	
1966:																
I	267	230	300	329	312	282	282	282	81		105		96		112	
II	264	239	286	333	314	283	283	283	79		95		62		119	
III	270	241	294	335	317	287	287	287	80		121		121		121	

U.S. Department of Agriculture

Table 3.--Farm production: Index numbers of total farm output, gross production of livestock and crops, United States 1/

(1957-59=100)

Item	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966 2/
Farm output	96	97	95	102	103	106	107	108	112	112	115	113
All livestock and livestock products <u>3/</u>	99	99	97	99	104	102	106	107	111	113	111	111
Meat animals	103	100	96	98	106	103	106	108	114	116	110	111
Dairy products	99	101	101	100	99	101	103	104	103	105	104	100
Poultry and eggs	86	94	95	101	104	104	112	111	115	118	122	128
All crops <u>3/</u>	96	95	93	104	103	108	107	107	112	109	117	112
Feed grains	86	85	93	101	106	109	99	100	110	97	113	111
Hay and forage	98	94	101	102	97	103	102	105	105	105	111	106
Food grains	83	87	82	121	97	115	106	98	102	114	117	116
Vegetables	96	102	98	102	100	103	110	108	108	103	112	111
Sugar crops	86	86	98	96	106	102	115	119	153	156	139	144
Cotton	120	108	89	93	118	116	116	121	125	124	122	86
Tobacco	127	126	96	100	104	112	119	134	135	129	110	108
Oil crops	78	92	91	111	98	105	122	123	128	128	155	164

1/ For historical data and explanation of indexes, see, Changes in Farm Production and Efficiency, USDA Statistical Bulletin No. 233.

2/ Preliminary indexes for 1966 based on October 1966 "Crop Production" report and other releases of the Crop Reporting Board, SRS.

3/ Includes other products not included in the separate groups shown.

Economic Research and Statistical Reporting Services.

levels, output this year of beef, chicken, and turkey is running well above 1965. Slaughter of cattle next year may move below 1966 levels as producers build up breeding herds, however, pork production will be up. Larger poultry and egg supplies are also expected for next year. Milk production declined nearly 4 percent below the 1965 level due to the increased milk-cow slaughter and below average increases in milk production per cow. But milk production has turned up and some further increase is expected in 1967 as producers respond to more favorable dairy prices.

Domestic Use Up

Food expenditures in the third quarter of 1966 were at an annual rate of nearly 8 percent above a year earlier. For the year, expenditures for food are expected to total around \$92 billion and account for about 18.2 percent of disposable personal income, the same percentage as in 1965. Food expenditures in 1967 again are expected to increase, but not so much as the large rise in 1966.

Despite an increase in per capita food supplies in 1966, strong demands for food products for all major sectors, including over a one tenth increase in military buying, resulted in strong upward pressures on food prices. Retail food prices so far in 1966 have posted large increases for pork, dairy products, eggs, and cereal and bakery products. Retail food prices in third quarter 1966 averaged $4\frac{1}{2}$ percent above a year earlier.

Total per capita civilian food consumption this year is estimated at about 1 percent above 1965, with increases for both animal and crop products. Per capita supplies will likely be larger in 1967 for crops, hogs, and poultry meat and eggs. Beef supplies are estimated smaller if breeding herd expansion occurs as expected.

Prospects for 1967 point to some further rise in average retail food prices. Although the rise is not expected to match the big increase in 1966, it may exceed the average annual increase of $1\frac{1}{2}$ percent for the past 5 or 6 years.

Among the nonfood items, domestic use of wool will likely rise about 7 percent from 1965 and cotton use may be up slightly. Wool prices received by farmers are expected to average 9 percent higher this year, reflecting a stronger domestic and world demand. Consumers continue to smoke more cigarettes in 1966. Cigarette consumption by U.S. smokers for the year is expected to be up about 2 percent from 1965. Cigar, cigarillo, pipe, and roll-your-own smoking this year is estimated down 1 to 2 percent from year-earlier levels.

Agricultural Exports Higher

Exports of U.S. farm products reached a record level in 1965/66. The value of such exports climbed to \$6.7 billion in 1965/66, up 10 percent from the previous record in 1964/65. Commercial sales for dollars rose to an estimated \$5.1 billion, and shipments to less developed countries, primarily under Government financed programs, declined slightly to \$1.6 billion.

Table 4.--U.S. agricultural exports, value of major commodities,
July-September, 1965 and 1966

Commodity	July-September		Percentage change
	1965	1966 <u>1/</u>	
	<u>Mil. dol.</u>	<u>Mil. dol.</u>	<u>Percent</u>
Cotton, excluding linters	79	98	24
Dairy products	54	29	-17
Feed grains, excluding products	295	326	11
Fruits and preparations	96	92	-4
Soybeans	101	96	-5
Tobacco, unmanufactured	100	145	45
Vegetables and preparations	37	36	-3
Wheat and flour	337	404	20
Other	393	405	3
Total exports	1,492	1,631	9

1/ Preliminary.

U.S. Department of Agriculture.

Exports in fiscal 1966/67 got off to a good start, with July-September up 9 percent from a year earlier. Tobacco exports were up sharply, and moderate increases were recorded for cotton and grains and preparations. Exports of soybeans were down slightly, and cottonseed and soybean oil exports were down sharply.

Agricultural exports are expected to advance to a new record in 1966/67, and may increase almost as much as in 1965/66. The overall increase will result partly from higher prices for a number of commodities including feed grains, soybeans, rice, and oilcake and meal. Substantially larger exports are in prospect for cotton and tobacco, and gains are indicated also for soybeans and rice.

Big Utilization Reducing Grain Carryover

The record domestic consumption and exports in 1965/66 have reduced the feed grain carryover to 43 million tons, 13 million below a year earlier. With larger livestock production in 1966/67, consumption of feed grains is expected to hold at a high level. Prospects point to continued utilization in excess of production with a possible carryout of 25 to 30 million tons by the end of 1966/67.

The July 1, 1966, carryover of wheat was 536 million bushels, down more than one-third from the 818 million bushels of a year earlier. With the total

wheat supply in 1966/67 down over 300 million bushels and disappearance estimated down slightly, carryover into 1967/68 will be down again.

Cotton stocks on August 1, 1966, were a record high of 17 million bales. The 1966/67 cotton crop is estimated at 10.7 million bales. Domestic utilization next year is estimated to rise to 9.6 million bales due to more favorable cotton-man-made fiber price ratios and the continued expansion in civilian and military activity. Much larger exports are expected to account for most of the increase in utilization. Exports may rise to around 5 million bales in 1966/67 from 2.9 million in 1965/66. This higher level of utilization will likely pull down the cotton carryover to around 13 million bales on August 1, 1967.

The September 1, 1966, soybean carryover is estimated at 36 million bushels. Based on October 1 indications, the 1966 soybean crop is placed at 927 million bushels, up about 10 percent from 1965/66. However, strong meal and oil demand will likely utilize most of the larger supply, producing a 1967/68 carryover, possibly slightly above this season's.

Income Increasing

Cash receipts from marketings of livestock in January through September of this year rose to \$18.3 billion, over 16 percent above the same period a year earlier. Livestock prices were 15 percent higher, despite nearly 2 percent larger marketings. Marketings have been lower for hogs and milk so far this year.

Cash receipts from marketings of crops the first 9 months this year totaled \$10.8 billion, up 5 percent from the same period in 1965. Crop prices averaged only slightly higher, while marketings have been running 3 percent larger.

Direct Government payments to producers this year are expected to exceed 1965 by more than one-third. Payments to participators in the 1966 Cotton and Wheat Stabilization Programs are running sharply above last year. For the year, realized gross income may total over \$49 billion, for a record high.

Farm production expenses this year are expected to total about \$33 billion. A 10 percent expected increase in realized gross farm income from last year, with production expenses estimated 8 percent higher, is expected to yield a 13 percent larger realized net farm income for the year. Realized net farm income for 1966 may exceed \$16 billion. This year will be the second highest on record, exceeded only by 1947. Average income per farm this year is expected to be around \$4,900, some 16 percent above 1965, and a record.

Farm Production Expenses Higher

The expected rise of around \$2½ billion in farm production expenses this year represents both higher prices and larger purchases of major inputs.

Table 5.—Gross and net income from farming, 1950 to 1965

Year	Cash receipts			Realized : nonmoney : income	Govern- ment : payments	Realized : farm gross : income	Farm : production : expenses	Farm opera- tors' net : realized : income	Net change : in farm : inventory	Farm operators : total net : income 1/
	Marketings : Crops : and products	Livestock : and products								
----- Billion dollars -----										
1950	28.5	12.4	16.1	3.5	0.3	32.3	19.4	12.9	0.8	13.7
51	32.9	13.2	19.6	3.9	.3	37.1	22.3	14.8	1.2	16.0
52	32.5	14.3	18.2	4.0	.3	36.8	22.6	14.1	.9	15.1
53	31.0	14.1	16.9	3.8	.2	35.0	21.3	13.7	-.6	13.1
54	29.8	13.6	16.3	3.5	.3	33.6	21.6	12.0	.5	12.5
1955	29.5	13.5	16.0	3.4	.2	33.1	21.9	11.2	.2	11.5
56	30.4	14.0	16.4	3.3	.6	34.3	22.4	11.9	-.5	11.4
57	29.7	12.3	17.4	3.3	1.0	34.0	23.3	10.7	.6	11.3
58	33.5	14.2	19.2	3.4	1.1	37.9	25.2	12.7	.8	13.5
59	33.5	14.6	18.9	3.3	.7	37.5	26.1	11.4	.1	11.5
1960	34.0	15.1	18.9	3.2	.7	37.9	26.2	11.7	.3	12.0
61	34.9	15.5	19.4	3.2	1.5	39.6	27.0	12.6	.3	12.9
62	36.2	16.2	20.0	3.1	1.7	41.0	28.5	12.5	.6	13.1
63	37.2	17.3	19.9	3.2	1.7	42.1	29.6	12.5	.6	13.1
64	36.9	17.1	19.8	3.2	2.2	42.3	29.4	12.9	-.8	12.1
1965	39.2	17.3	21.9	3.3	2.4	44.9	30.7	14.2	1.0	15.2
1965: 2/										
I	37.3	17.0	20.3	n.a	n.a	42.9	30.0	12.9	0	12.9
II	39.7	17.7	22.0	n.a	n.a	45.4	30.8	14.6	.9	15.5
III	39.7	17.4	22.3	n.a	n.a	45.5	30.9	14.6	1.5	16.1
IV	40.0	17.5	22.5	n.a	n.a	45.9	31.2	14.7	1.4	16.1
1966:										
I	42.2	n.a.	n.a.	n.a.	n.a.	48.4	31.9	16.5	.6	17.1
II	42.2	n.a.	n.a.	n.a.	n.a.	48.7	32.5	16.2	.2	16.4
III	43.0	n.a.	n.a.	n.a.	n.a.	49.8	33.8	16.0	-.5	15.5

1/ Details may not add to totals due to rounding.

2/ Quarterly data seasonally adjusted at annual rates.

n.a. not available

The index of prices paid by farmers, including interest, taxes, and farm wage rates, so far this year has averaged about 4 percent above the same period in 1965 (table 2). Prices paid for feed and feeder livestock, inputs of farm origin, have moved 3 and 14 percent higher, respectively, as farm product prices have risen. Feeder cattle prices have remained well above 1965 levels each month, and have recently moved higher relative to fat cattle prices.

Farmers presently are paying higher interest rates along with the rest of the economy. On September 1, 1966, more than half of the production credit associations were charging 7 percent or more for short-term production loans. The continued growth in real estate taxes so far this year pushed per acre farm taxes 5 percent higher.

Farm wage rates during the first 9 months of 1966 averaged $7\frac{1}{2}$ percent higher than a year earlier, as farmers had to compete for hired labor. Employment opportunities in other sectors of the economy have been above average and apparently are continuing to attract farm workers. Despite higher wage rates, the continued decline in the number of hired workers moderated the rise in the farm wage bill. From January through September hired workers on farms averaged 9 percent below the same period last year.

Farm machinery prices continue to rise. The index of prices paid for farm machinery stood at 449 percent of the 1910-14 average in September, 4 percent above the same month in 1965. Higher prices for farm machines may in part reflect improvements in quality. For example, an "average" 1966 farm tractor represents a vast improvement in power, versatility, and operator comfort over a 10-year model.

Farm and Industrial Equipment Institute retail sales figures show farmers bought 16 percent more tractors from January to July of this year than in the same period of 1965. Large increases in purchases of tractors were noted particularly in the North Central States. The considerable advance in sales this year follows a 3 percent increase in retail farm tractor sales in 1965 over 1964.

The value of shipments of farm machinery and equipment, other than tractors, through July was up 22 percent from a year earlier. According to the Farm and Industrial Equipment Institute, farmers purchased one-fifth more self-propelled combines and corn pickers through July of this year. Corn heads for grain combines have been running about double year-earlier levels. Reports from some sources indicate machinery and equipment deliveries are running behind current demand. However, in light of recent large capital outlays and the suspension of the investment tax credit through December 31, 1967, the present rate of farm machinery sales may not be maintained throughout all of the remainder of this year and through 1967. The effect of the tax credit suspension on farmers' investment plans will be moderated by the exemption for investments of \$20,000 or less. It is estimated that the investment tax credit on 1966 farm investment is roughly \$100 million.

Farm Assets Larger

Farmers have moved into a stronger financial position because of higher incomes this year. Farm assets on January 1, 1967, are expected to climb to \$273 billion, about \$18 billion higher than a year earlier. The farm debt also has grown by record amounts this year--it is up an estimated \$4 billion for 1966 as a whole. Strong farm prices and favorable income prospects in 1966 increased both short- and long-term borrowing. Although total indebtedness increased, proprietors' equities--assets minus liabilities--increased \$14 billion for the year.

Most of the rise in the level of farm assets continues to be explained by the persistent uptrend in market value of farmland. Increases also will likely be shown for livestock inventories, machinery and motor vehicles, and financial assets.

The availability of mortgage credit to farmers this year was severely restricted and interest rates rose sharply. The general tightness in the money market and the high level of interest rates will likely continue into the first half of 1967 and may affect farmers' financial planning for production and investment activities for the year.

FACTORS AFFECTING DEMAND FOR FARM PRODUCTS

The economy expanded further in the third quarter and gross national product advanced \$14 billion to a \$746 billion annual rate. Economic activity is expected to continue advancing during the closing months of 1966 and further expansion is in prospect for 1967. The value of final goods and services produced in 1966 will likely be slightly more than $8\frac{1}{2}$ percent above the 1965 level of \$681 billion. The third quarter increase in economic activity of 1.9 percent followed an increase of 1.5 percent in the second quarter. The increase reflected continued strong demand for investment goods, an acceleration in defense spending, and more buoyant consumer demand--which had exhibited some weakness during the second quarter. Residential construction declined sharply from the second quarter level as tight money and high interest rates continued to restrict construction activity.

With the economy operating close to capacity in the third quarter, inflationary pressures continued to be of major concern. The implicit price deflator for gross national product, ^{1/} a measure of the general price level, rose to 114.6 (1958=100) in the third quarter from 113.8 in the second quarter. The slightly slower third-quarter rise moved average prices up 3.2 percent from a year earlier. For 1966 as a whole, the deflator is expected to average about 3 percent above the 1965 level of 110.9 and considerably above the $1\frac{1}{2}$ percent average annual increase from 1960 to 1965.

^{1/} Gross national product in current prices divided by gross national product in 1958 prices.

Table 6.—Other economic factors affecting agriculture (seasonally adjusted annual rates)

Item	Unit	Year 1965	1966				III 1/
			III	IV	I	II	
Gross National Product	Bil. dol.	681.2	686.5	704.4	721.2	732.3	746.0
Personal income	Bil. dol.	535.1	541.9	552.8	564.6	573.5	585.0
Disposable personal income 2/	Bil. dol.	469.1	476.2	486.1	495.1	499.9	507.3
Personal consumption expenditures	Bil. dol.	431.5	435.0	445.2	455.6	460.1	470.0
Durable	Bil. dol.	66.1	66.7	68.0	70.3	67.1	70.3
Nondurable	Bil. dol.	190.6	191.4	197.0	201.9	205.6	208.3
Services	Bil. dol.	174.8	176.9	180.2	183.4	187.4	191.4
Personal saving	Bil. dol.	25.7	29.0	28.5	26.7	26.6	23.8
Net government receipts	Bil. dol.	139.4	136.7	142.6	149.7	156.4	---
Government purchases	Bil. dol.	136.2	137.7	141.2	145.0	149.0	155.3
Deficit or surplus (on income and product account)	Bil. dol.	3.2	-1.0	1.4	4.7	7.3	---
Gross private domestic investment	Bil. dol.	106.6	106.7	111.9	114.5	118.5	116.0
Fixed investment	Bil. dol.	97.5	98.0	101.5	105.6	106.2	105.2
Change in business inventories	Bil. dol.	9.1	8.7	10.4	8.9	12.3	10.8
Expenditures for plant and equipment	Bil. dol.	51.96	52.75	55.35	58.00	60.10	3/ 61.60
Corporate profits (before taxes)	Bil. dol.	75.7	75.0	78.7	82.7	82.8	---
Net exports of goods and services	Bil. dol.	7.0	7.1	6.1	6.0	4.7	4.7
Balance of payments (on liquidity basis) 4/	Mil. dol.	-1,337	-2,136	-1,328	-2,224	-628	---
Total civilian employment 5/	Millions	72.2	72.4	73.0	73.6	73.7	74.2
GNP implicit price deflator	1958=100	110.9	111.0	111.6	112.6	113.8	114.6
Per capita disposable personal income (1958 prices)	Dollars	2,214	2,241	2,270	2,287	2,278	2,289

1/ Preliminary. 2/ Excludes interest paid by consumers and net personal transfers to foreigners. 3/ Estimates based on anticipated capital expenditures as reported by business. 4/ Equals changes in liquid liabilities to foreign official holders, other foreign holders, and change in official reserve assets. 5/ U.S. Department of Labor.

Departments of Commerce, Agriculture, and Securities and Exchange commission

Total personal income rose \$11½ billion in the third quarter to \$585 billion (annual rate), up 8 percent from a year earlier (table 7). The third quarter rise was more than the second quarter increase. Once again, increased demands for goods and services were translated into higher employment and a continued high average workweek. The resulting increase in private wage and salary payments was slightly greater than the second quarter rise and comparable with gains recorded in other recent quarters. Civilian employment rose 0.5 million to 74.2 million, seasonally adjusted annual rate, in the third quarter and the employment rate held steady at 96.1 percent of the civilian labor force. Government wage and salary payments rose sharply in the third quarter as a result of a pay raise for Federal civilian and military personnel and increased employment in State and local Governments.

Most nonwage components of personal income also rose during the third quarter with Government transfer payments accelerating and personal interest income continuing to rise sharply, reflecting high interest rates. Government transfer payments rose as the Medicare program got underway on July 1. Transfer payments rose very little in the second quarter. However, the beginning of benefit payments also brought the first payments from those persons who chose to enroll in the voluntary Medicare insurance program. This resulted in a rise in personal contributions for social insurance which, in turn, reduced personal income.

The recent rapid rise in personal income tax payments to Federal, State and local Governments continued in the third quarter. Accordingly, disposable personal income rose \$7½ billion to \$507 billion (annual rate), up 6½ percent from a year earlier. The continued rapid rise in tax payments was due, in part, to the effect of graduated withholding. With prices of consumer goods and services continuing to rise, the gain in disposable personal income in real terms was reduced to \$3.4 billion. However, the rise in prices of consumer goods and services after seasonal adjustment appears to have slowed in the third quarter.

Consumer Spending

Personal consumption expenditures rose more rapidly than disposable income during the third quarter as consumers supplemented income gains with increased use of credit and a reduction in savings. Spending for goods and services shot up \$10 billion from the second quarter to an annual rate of \$470 billion, up 8 percent from a year earlier. With spending rising faster than disposable personal income, consumers reduced their current saving to 4.7 percent of disposable personal income. Expenditures for all major types of goods and services rose with a sharp rebound in spending for durable goods leading the way.

Spending for durable goods, which fell sharply in the second quarter, rose and regained the previous peak reached in the first quarter of this year. The third quarter rise was accounted for by an increase in spending for automobiles, furniture, and other household equipment. Sales of automobiles rose

Table 7.--Change from previous quarter in selected measures of personal income,
1964 III, to 1966 III, seasonally adjusted annual rates

Item	Unit	1964				1965				1966			
		III	IV	I	II	III	IV	I	II	III	IV	I	II
Total personal income	:Bil.dol.:	8.3	7.2	10.5	9.6	14.3	10.9	11.8	8.9	11.5			
Wages and salaries:													
Private	:Bil.dol.:	6.6	5.1	5.9	5.5	7.1	10.0	9.2	7.4	9.2			
Government	:Bil.dol.:	5.1	3.8	5.2	4.5	5.4	7.4	7.4	5.6	6.3			
	:Bil.dol.:	1.5	1.3	.7	1.0	1.7	2.6	1.8	1.8	2.9			
Transfer payments	:Bil.dol.:	.2	.4	1.6	-.8	4.2	-1.5	1.1	.2	2.1			
Personal tax payments	:Bil.dol.:	2.2	1.8	4.0	1.7	-.9	1.0	2.8	4.1	4.1			
Disposable personal income	:Bil.dol.:	6.1	5.4	6.6	7.8	15.2	9.9	9.0	4.8	7.4			
Disposable personal income in constant (1958) dollars	:Bil.dol.:	5.3	3.1	4.9	4.9	13.1	7.1	4.5	-.5	3.4			
Disposable income per capita	:Dol.:	23	20	27	34	70	43	39	18	31			
Disposable income per capita in constant (1958) dollars	:Dol.:	20	6	22	19	60	29	17	-9	11			

as dealers reduced large inventories of 1966 model cars that accumulated in late spring. Increased spending for durable goods was also accompanied by a slightly faster growth in consumer installment credit outstanding compared with the second quarter.

Expenditures for nondurable goods continued to rise in the third quarter although the rate of increase slowed from the second quarter. Spending for food and beverages again rose more slowly and continued the easing underway since the first quarter of 1966 when high food prices inflated spending above the long-run trend. Spending for services continued to rise rapidly.

Government Spending

Federal government purchases of goods and services rose more than \$4 billion to a third-quarter rate of \$78.3, some \$10.8 billion above a year earlier. The rapid rise in defense spending accelerated during the third quarter of 1966. The third-quarter increase continued the rapid rise underway since mid-1965 and raised the July-September level to more than a fifth above a year earlier. Defense purchases of goods and services are expected to rise further this year in view of the high levels of new and unfilled orders for defense products. Spending on goods and services for civilian purposes rose very little in the third quarter.

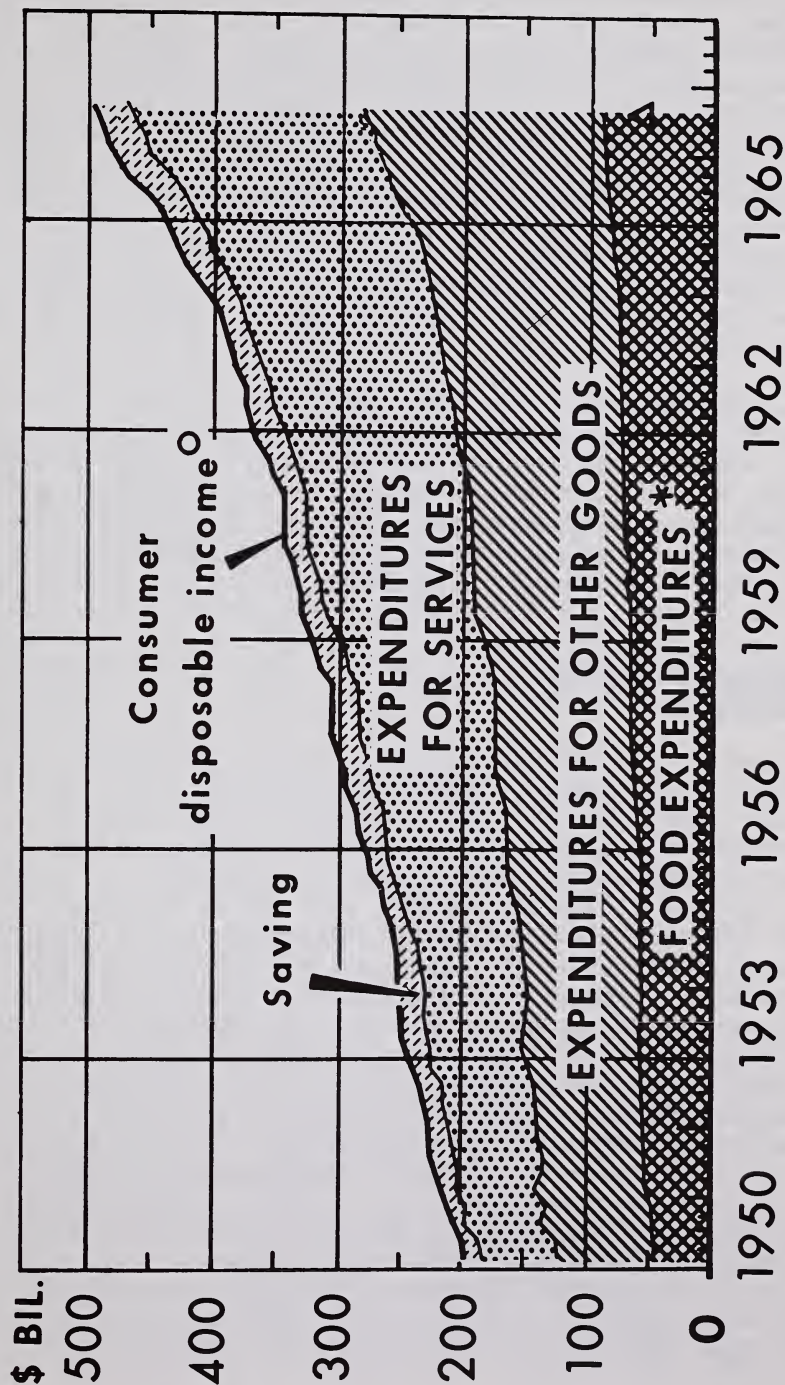
State and local Government demand for goods and services also rose sharply during the third quarter of 1966. Spending for goods and services was up 9.7 percent from a year earlier. The third-quarter increase was considerably above the trend of the past 5 years. State and local Governments will continue to increase spending in 1967 and the increase may accelerate some from the trend of the past 10 years.

Investment Spending

Businessmen continued to carry out plans to modernize and expand productive facilities during the third quarter of 1966. Nonresidential fixed investment spending rose almost 14 percent from the third quarter of 1965. However, increases in nonresidential fixed investment in the past 2 quarters were below the exceptional increases recorded in late 1965 and early 1966. The slowdown reflects a decline in nonresidential construction activity underway since the first quarter of 1966. At least some of this slowdown can be attributed to high interest rates and the shortage of mortgage credit. As nonresidential construction activity eased during the past 6 months, spending for producers' durable equipment accelerated. In the third quarter, outlays for equipment rose sharply and exceeded increases in the first and second quarters of 1966.

Capital spending has been rising rapidly since 1963 and, according to plans of businessmen, will continue to rise during the rest of 1966. Since 1963, nonresidential fixed investment spending has risen from almost $9\frac{1}{2}$ percent

INCOME AND EXPENDITURES



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Figure 1

of gross national product (constant dollars) to 11 percent in the second quarter of 1966. The magnitude of the current capital spending boom is realized when compared with the 1956-57 investment boom. During that period, private nonresidential fixed investment spending reached a peak of 10.8 percent of gross national product (constant dollars). Investment spending not only adds to future productive capacity but also absorbs current productive resources. With the economy operating close to capacity, the immediate effect of the current high rate of investment outlays has been to aggravate supply conditions, lengthen delivery schedules, and put upward pressure on prices of capital goods. On September 8, the Administration proposed a temporary suspension of the 7 percent investment tax credit and the use of accelerated depreciation on all commercial buildings and structures in order to dampen present incentives for business investment and reduce inflationary pressures. The Congress approved these measures and the suspension will be in effect from October 10, 1966 to December 31, 1967.

Nonfarm inventory investment continued to rise during the third quarter although the rate of accumulation slowed slightly from the previous quarter. The \$11.3 billion added to nonfarm inventory stocks during July-September reflected additions to stocks of manufacturing and wholesale trade establishments. Retail trade inventories rose very little due to a liquidation of large automobile inventories accumulated in the second quarter. Farm inventories declined in the third quarter as domestic and foreign demand continued strong.

Residential Construction Activity Continues to Decline

High interest rates and curtailed supplies of mortgage credit continued to trouble the homebuilding industry during the third quarter. Outlays fell 10 percent from the second quarter level of \$28.0 billion. Housing starts, which are an important leading indicator of future residential building activity, declined throughout the third quarter and averaged 25 percent below the year-earlier level of 1.45 million units. All major regions of the country have been affected by the decline in housing activity. Compared with a year earlier, housing starts in the third quarter were down 22 percent in the Northcentral region, 21 percent in the Northeast region, 26 percent in the South, and 32 percent in the West. Attempts are being made to increase the supply of mortgage credit. Legislation has been passed by Congress which authorizes the Federal National Mortgage Association to borrow \$3.7 billion to purchase existing mortgages. This would release funds for new mortgage financing. In addition, FNMA would have \$1.0 billion for direct investment in mortgages. This money would be borrowed from Government trust accounts rather than in the open market and thus avoid adding to money market pressures. It is hoped that these measures and those previously instituted will help to alleviate the shortage of mortgage credit, reduce interest rates, and stimulate residential construction activity. However, activity in the near future is not likely to improve since housing starts are still declining and the corrective measures probably take some time to work through the various markets.

Credit Conditions

Increasing demand for goods and services was accompanied by further growth in demand for bank credit during the third quarter of 1966. However, the rate of increase slowed appreciably from the large gains recorded in recent quarters. Total commercial bank credit (loans and investments) rose \$2.2 billion, after seasonal adjustment, to \$307.6 billion. The third quarter rise was considerably below the \$5.9 billion and \$5.1 billion increases recorded in the first 2 quarters of the year. Total commercial bank loans also rose much more slowly, reflecting in part the continued efforts of the Federal Reserve System to moderate the rise in business loan activity. The Federal Reserve System has been pursuing a restrictive monetary policy since late last year in order to prevent bank credit expansion from aggravating inflationary pressures.

The effect of the stringent credit situation was reflected also in a slower growth in the money supply. In September the money supply was slightly below the June level at \$170.5 billion (seasonally adjusted) and 3.9 percent above a year earlier. In 1965, the money supply rose 4.7 percent and in 1964 it rose 4.3 percent.

Interest rates continue to reflect strong credit demands and a firmer monetary situation. The yield on 3-month Treasury bills rose during the third quarter and averaged 5.048 percent compared with 3.860 percent a year earlier. Long-term U.S. Government bonds sold to yield 4.78 percent in the third quarter compared with 4.58 percent in the second quarter and 4.20 percent a year earlier. Yields on most other types of debt instruments were also higher. Since late August and early September, there has been some easing in long-term interest rates.

BALANCE OF PAYMENTS

International transactions of the United States during the second quarter of 1966 resulted in a balance of payments deficit--liquidity basis--of \$0.6 billion (seasonally adjusted annual rate). The second quarter deficit was down sharply from the \$2.2 billion annual rate registered in the first quarter and also below the quarterly average of about \$1.3 billion for all of 1965. Major transactions affecting the balance of payments are presented in table 8. The second quarter 1966 deficit reflected a decline in U.S. official reserve assets of \$0.3 billion (annual rate) and an increase in U.S. liquid liabilities to all foreigners of \$0.4 billion (annual rate).

The balance on goods and services, although still favorable, declined from \$6.1 billion (seasonally adjusted annual rate) in the first quarter to \$5.3 billion in the second quarter. Preliminary data for the third quarter point to a further reduction. Both exports and imports of goods and services rose in the second quarter, but the rise in imports more than offset the rise in exports. Large exports of agricultural commodities continued to be an important contributor to the favorable balance on goods and services.

Table 8.--International transactions of the United States,
1964-66 (excluding military grant-aid)

Item	(Billions of dollars, seasonally adjusted annual rates)									
	1965					1966				
	1964 year	I	II	III	IV	1965 year	I	II	IIIp.	
Exports of goods and services	37.0	35.1	40.5	40.1	40.3	39.0	41.8	42.3	43.7	
Payments to foreigners	37.0	35.1	40.5	40.1	40.3	39.0	41.8	42.3	43.7	
Imports of goods and services	28.5	28.7	32.3	33.0	34.2	32.0	35.7	37.0	39.0	
Transfers to foreigners, net	2.8	2.6	3.1	2.8	2.5	2.8	3.4	2.9	3.1	
Personal	.6	.6	.6	.6	.6	.6	.6	.7	.7	
Government	2.2	2.0	2.5	2.2	1.9	2.2	2.8	2.2	2.5	
Net foreign investment	5.7	3.8	5.1	4.2	3.5	4.2	2.6	2.4	1.7	
Change in U.S. Government assets, net; increase (+)	1.7	1.5	1.9	1.1	1.9	1.6	1.3	1.9	n.a.	
Change in U.S. private assets, net; increase (+)	6.5	6.4	1.4	3.3	3.6	3.7	3.6	4.4	n.a.	
Change in nonliquid assets in the U.S., net; increase (-)	- .7	-1.3	.5	1.0	-1.0	- .2	-1.1	-3.6	n.a.	
Errors and omissions, net	1.0	0	.4	1.0	.3	.4	1.1	.3	n.a.	
Balance of payments, liquidity basis:	-2.8	-2.8	.9	-2.1	-1.3	-1.4	-2.2	-.6	n.a.	
Change in U.S. official reserve assets, net; increase (+)	- .2	-3.4	-.3	-.2	-1.1	-1.2	-1.7	-.3	n.a.	
Change in liquid liabilities to all foreigners, net; increase (-)	-2.6	.6	1.2	-2.0	-.2	-.1	-.5	-.4	n.a.	

p. - Preliminary.

n.a. - Not available.

U.S. Department of Commerce.

Private capital outflows increased from \$3.6 billion (seasonally adjusted, annual rate) in the first quarter to \$4.4 billion in the second quarter. A primary factor in the increase was the shift from net liquidations of \$1.1 billion in the first quarter to a net increase of \$0.5 billion in the second quarter in foreign claims reported by U.S. banks. Foreign claims reported by U.S. banks had been declining since early 1965 in response to the Government's program to improve the balance of payments. It would be premature to conclude that the recent change in direction was more than temporary. A decline in U.S. purchases of newly issued foreign securities from \$1.8 billion in the first quarter to \$0.8 billion in the second quarter offset some of the increase in foreign claims reported by U.S. banks and direct investments abroad. Capital outflows for direct investment also rose during the second quarter but at least part of the rise was attributable to the reinvestment of funds obtained abroad through the sale of U.S. corporate securities. Sales of U.S. corporate securities abroad increase foreign capital inflows to the U.S. and, thus, improve the balance of payments.

Foreign capital inflows rose sharply from \$1.1 billion (seasonally adjusted, annual rate) in the first quarter to \$3.6 billion in the second quarter and contributed importantly to the improved balance of payments position. As noted above, some of the increase was due to U.S. corporations raising funds abroad to finance direct investments abroad. However, even after allowing for capital inflows of this type, the rise was from \$0.9 billion in the first quarter to \$2.7 billion in the second quarter. Transactions in outstanding U.S. securities by foreign residents also improved, changing from net sales to net purchases.

CURRENT COMMODITY SITUATION

LIVESTOCK AND LIVESTOCK PRODUCTS

Meat Animals

Consumption of red meats in 1966 will be a little above the 167 pounds per person consumed a year ago. A decline of 1 to 2 pounds in per capita pork consumption and a lesser decline in veal are being more than offset by a 2 to 3 pound increase in beef and a small increase in lamb and mutton consumption. Larger production of beef and a sizable increase in meat imports are the main reasons for a gain in meat consumption in 1966. These increases are outweighing smaller production of pork, veal and lamb and a growth of 1.2 percent in population.

Meat consumption may be down as much as 3 percent next year. Beef consumption is expected to decline moderately and further decreases in veal and lamb consumption are expected. However, pork consumption probably will increase somewhat and be partially offsetting.

Cattlemen are reducing inventories again this year. There were 106.6 million cattle and calves on farms on January 1, 1966. Slaughter has been large this year and the calf crop was smaller. This is leading to a decline of $1\frac{1}{2}$ to 2 percent in the number of animals on farms. The calf crop will be down again next year, but cattlemen probably will send fewer cows and calves to slaughter. Thus, the inventory decline is expected to be slowed or halted in 1967.

Fed cattle prices dropped last spring and by mid-summer Choice steers at Chicago were averaging between \$25 and \$26 per 100 pounds. They stayed at this level into the fall as fed beef production continued large. Fed cattle marketings were up 12 percent in July-September and market weights were 1 to 3 percent above the light weights a year earlier.

There were 7.9 million cattle and calves on feed on October 1 in 32 major feeding States, 8 percent more than a year earlier. Cattle feeders planned to market 7 percent more cattle out of feedlots in October-December than in these months of 1965. Fed cattle marketings probably will continue above year-earlier levels this winter, but by next summer marketings are expected to be down from a year earlier. Fed cattle prices are expected to strengthen later this winter, and by mid-year fed cattle prices likely will be averaging well above the \$25 to \$26 range of this past summer. Price increases could be delayed or interrupted if marketings are bunched or if cattle are held to unusually heavy weights. Increased supplies of pork and poultry will also temper fed cattle price increases in coming months.

Hog slaughter is increasing. Early in 1966, hog slaughter was off 15 to 20 percent from a year earlier, but by the end of the year it will be averaging well above 1965 slaughter rates. Moreover, the June-November pig crop was up more than 6 percent, and hog producers plan to make another similar increase this winter. Thus, the increase in slaughter now underway will continue through 1967.

Barrows and gilts at 8 markets currently are averaging around \$21 or about \$4 less than prices last summer. Hog prices during the summer and fall of 1967 probably will continue below a year earlier; however, the margin likely will not be as great.

Higher feed costs and lower hog prices in the first half of next year will offer less encouragement to hog producers to expand. However, further increases in pig crops in 1967 are likely. Thus, larger supplies of pork are developing for all of 1967, but prospective increases do not seem burdensome. Smaller beef production next year will be a price strengthening factor in the hog price picture; larger supplies of poultry will have a weakening influence.

Lamb slaughter has been averaging 3 to 5 percent below year-earlier levels this fall. Slaughter likely will remain down through the winter months because of the 2 percent smaller 1966 lamb crop and some withholding of ewe lambs for herd rebuilding.

Choice slaughter lambs at Denver are averaging around \$24 per 100 pounds, about the same as a year earlier. Not much change is anticipated in the price of lambs this winter and a normal seasonal rise is likely next spring. On balance, sheepmen probably will send fewer lambs to slaughter in 1967 and thus increase inventories slightly. Lamb prices are expected to average higher next year, especially after the winter months.

Dairy

Milk production in 1967 is likely to rise moderately from the 121½-122 billion pounds in prospect for 1966. January-September 1966 output was 3.7 percent below a year earlier.

Milk cow numbers in 1966 may decline an average of 5 to 6 percent from a year earlier, continuing the sharper-than-usual downtrend of 1965. Milk output per cow for 1966 may exceed 8,300 pounds, up about 3 percent from 1965.

A further decline in milk cow numbers, but less rapid than this year, is in prospect in 1967, because of continued high beef cattle prices and off-farm opportunities that encourage cow culling and sale of dairy herds. However, gains in output per cow are expected to raise 1967 milk production moderately above the 1966 level. Most of the production gain likely will be in the first half of 1967 from depressed year-earlier levels.

Feed supplies are much improved from last year's levels in several important dairy areas. Together with higher prices and a prospective high milk-feed price ratio, this likely means average or better gains in output per cow through the winter feeding season.

Price supports to farmers of \$4.00 per 100 pounds for manufacturing grade milk and 68 cents per pound for butterfat in farm-separated cream are being continued until March 31, 1968. In 1966 prices received by farmers for all wholesale milk may average about \$4.85 per 100 pounds, 61 cents above 1965. With price supports now set for all of 1967, farm prices for milk next year are likely to average above the 1966 level.

Cash receipts from farm sales of milk and cream are expected to reach a record high in 1966 of about \$5.6 billion--up from \$5.1 billion in 1965. This year's higher prices more than offset the decreased volume of marketings. Receipts in 1967 likely will rise further since both farm prices and marketings are expected to gain.

This year, per capita disappearance of milk in all forms is about 12 pounds below the 1965 level of 621 pounds. A further decline is likely in 1967, in line with the 1 percent annual average downtrend in 1960-64. However, with rising population, a small gain in total consumption is expected in 1967.

A continued rise in commercial sales of dairy products is expected. Commercial sales of fluid milk and of most manufactured dairy products increased in 1966.

Domestic use (civilian and military) of milk in 1966 is expected to be about $1\frac{1}{2}$ billion pounds below the 122.3 billion pounds (milk equivalent) consumed in 1965. The decrease is due to smaller donations of Government-purchased dairy products to welfare and school lunch programs this year than last. In 1967, supplies probably will exceed commercial use, resulting in some movement of dairy products to the Commodity Credit Corporation (CCC).

With gains in commercial stocks and sales, Government removals by means of CCC purchases and payment-in-kind (PIK) exports are expected to be less than a billion pounds (milk equivalent), down sharply from the 5.7 billion removed in 1965. Purchases (delivery basis) and exports under PIK this year may average about $\frac{1}{2}$ percent of the milkfat produced and 4 percent of the milk solids-not-fat.

U.S. exports declined sharply in 1966 because of low availability of dairy products and likely will continue at low levels in 1967.

Dairy product imports this year are expected to be more than double the 1965 level of 0.9 billion pounds (milk equivalent). A further rise--chiefly in nonquota products--is expected in 1967 due to large world supplies and favorable U.S. prices in relation to export prices from major producing countries.

Dairy products in commercial and Government stocks by December 31 are expected to total slightly less than the 4.5 billion pounds milk equivalent a year ago--although commercial holdings likely will be up. USDA carryover stocks likely will continue small at the end of 1967, though they may rise a little from this year's very small stocks.

Poultry and Eggs

Larger production of eggs and poultry is in the offing for 1967. Egg production, which held steady this year, may show the largest rise in more than a decade. The increase would be large enough to temporarily reverse the 15-year downtrend in per capita egg consumption. Broiler output likely will continue increasing about as fast as in 1965 and 1966--5 to 10 percent. Growth in turkey production in 1967 probably will not match the 11 percent gain in 1966, but should be in line with the increases of the 2 preceding years--perhaps around 5 percent.

In expanding output, poultrymen are responding to an extended period of favorable prices. Broiler prices, except for some earlier weakness in the fall of 1965, had been rising for more than 2 years, until the sharp decline in recent weeks. Turkey prices also were higher in 1965 and 1966 than in 1964. Strength in egg prices didn't emerge until the second half of 1965, but in 1966 egg prices have averaged the highest since 1958.

Price improvement for poultry over the past 2 years is primarily the result of rapidly increasing consumer incomes, particularly in the low income groups, and reduced supplies of red meat. The price rise for eggs also reflected smaller egg supplies during the first 8 months of 1966 compared with a year earlier.

Egg production in 1967 may exceed by around 3 percent the 182 million cases expected in 1966. Output during the first quarter of 1967 could be up as much as 5 percent above a year earlier, barring unusually severe weather. At the beginning of October, there were 386 million potential layers on farms--4 percent more than on that date last year. Most of this gain from a year earlier should carry through to the number of layers at the beginning of 1967. The record large hatches of replacement chicks in recent months probably will keep the Nation's flock larger than a year earlier--at least through next summer. In addition, with more young layers, the rate of lay in 1967 may post a larger than average gain--more than the 1 percent per year in 1961-65.

Egg prices weakened in recent weeks under the impact of larger and seasonally increasing supplies. The U.S. farm price in mid-October averaged 41.1 cents per dozen, down from the September peak of 42.5 cents, but still 4.1 cents above a year earlier. Prices are expected to continue to work lower over the next several months. Prices to producers during the first quarter of 1967 are likely to average much below current levels as well as the relatively high prices of January-March 1966. If egg production expands as much as expected, egg prices may run below the 1966 level throughout most or all of 1967, although the difference probably would narrow as the year progresses.

Broiler production is expected to continue above a year earlier in early 1967 as hatchery supply flocks continue to expand. In recent months, the Nation's broiler breeder flock was about 10 percent larger than a year earlier, but in early 1967 it will be up about 15 to 20 percent. Hatchery activity in 23 States over the past few weeks suggests that broiler production at the start of 1967 will be 5 to 10 percent above the 1966 level. Output may move further above a year ago during the early months of 1967. But, as the year progresses, the rate of expansion may be cut back in response to lower broiler prices and higher costs. Feed costs in particular are likely to average appreciably above a year earlier during the first half of next year.

Broiler prices broke sharply between mid-September and the third week of October as broiler demand declined seasonally, as competition from rising supplies of pork became more intense. U.S. live broiler prices dropped from 14.8 cents per pound to 13.3 cents and were 0.9 cent below a year earlier. Early in 1967 broilers will face even stiffer competition from high protein foods. During this period larger supplies and lower prices compared with a year earlier are expected for pork, turkeys, and eggs. U.S. live broiler prices in the first half of 1967 may average much below the relatively high 16.4 cents per pound in January-June 1966. But, as the pace of output expansion slows later in the year, prices are expected to recover.

The turkey industry also appears to be gearing up for another increase in output in 1967. As of October 1, owners of turkey breeder hens in 15 States reported plans to keep 4 percent more breeders at the beginning of the 1967 hatching season than in 1966. So far this season--in July-September--intentions to keep more breeders have been borne out by the large increase over a year ago in the number of turkeys tested for pullorum disease by State agencies.

Although it is too early to make a firm forecast, turkey production in 1967 is expected to increase about 5 percent.

Turkey prices early in 1967 are expected to run below a year earlier because of larger supplies and greater competition from other high protein foods. Prices for the smaller turkeys which compete more closely with other meats are likely to be affected the most. Tom prices early next year are expected to continue benefiting from further growth in the demand for convenience foods utilizing turkey meat.

Wool

World prices increased during the last half of 1965 and the first half of 1966. During coming months, prices likely will continue strong as a result of increased world wool consumption. World wool use in 1966 is expected to be larger than in 1965. World production during the 1966/67 marketing season will be up very slightly, but stocks of wool are down.

Prices received by growers for shorn wool in 1967 likely will average slightly above those received in 1966. Wool production in the United States during 1967 will total about the same as in 1966, but consumption of apparel wool is expected to be smaller. Domestic prices, however, likely will follow the trend in world prices. During 1966, prices received by growers for shorn wool are expected to average about 9 percent above the 1965 national-average price of 47.1 cents a pound, grease basis.

Mill consumption of apparel wool in 1967 likely will decline about 5 percent from the 285-290 million pounds, scoured basis, estimated for 1966. Higher wool prices and competition from non-cellulosic fibers likely will offset the high level of domestic demand in the United States and result in lower wool consumption. Unfilled orders of finished apparel fabrics have declined moderately from a year ago, but still remain at a relatively high level; inventories of finished fabrics continued low. This likely will keep wool mill activity from declining sharply.

The higher level of wool mill activity in 1966 compared with 1965 was accompanied by larger imports of semi-processed and manufactured wool textile products. Imports of these products in 1966 likely will total a record high of 90-95 million pounds (raw wool equivalent), compared with the previous high of 83 million pounds in 1965. A small decline in imports of apparel wool textiles during 1967 may result in view of the expected decrease in wool mill activity.

Dutiable raw wool imports during 1967 likely will be down about a tenth from the 165-170 million pounds, clean basis, expected in 1966. Lower mill use of apparel wool in 1966 is expected to result in declining imports.

Mill use of carpet wool in 1967 is expected to remain stable at the estimated 1966 record-low level of 105-110 million pounds, scoured basis. Competition from man-made fibers has been important in replacing wool in the

carpet and rug market. During the first part of 1966, carpet wool use was 3 percent below a year earlier. Use of man-made fibers in the same period increased 7 percent and represented 50 percent of total fiber use in carpet and rug yarn spinning on the woolen system.

CROPS

Wheat

Total disappearance of wheat during 1966/67 is expected to decline sharply from the record-high level of 1965/66. Prospective smaller disappearance is balanced against a smaller supply and, while there will be a reduction in carryover stocks during the year, it is not likely to be nearly as large as the 282 million-bushel decline during 1965/66. A decline of possibly 115-140 million bushels from the 536 million bushels last July now appears most likely. The undetermined extent of Government program exports, during the remaining 9 months of the 1966/67 marketing year, is the major factor causing uncertainty in the estimate of the year-end carryover. Plantings and the ultimate size of the oncoming 1967 crop will have an influence on the quantities of wheat shipped under Government programs during the remainder of this crop year.

Exports are currently estimated at 100 to 125 million bushels below last year's record 867 million. The tighter U.S. supply situation this year and the expected record world crop will combine to limit U.S. exports during 1966/67. During July-September, commercial exports were nearly double those of the same period of 1965, although total exports were about 10 percent larger. Lack of supplies limited competition from the Southern Hemisphere exporters during these months. Commercial exports are likely to continue relatively strong during the entire year, although the imminent availability of large crops in both Australia and Argentina, as well as a record crop in Canada point to increased competition for U.S. commercial sales.

Domestic use is also expected to be down, chiefly the result of an anticipated reduction in the feeding of wheat. The rate of disappearance, as well as the higher price of wheat relative to that for feed grains, during July-September, suggests a substantial decline from the large-scale use of wheat for feed in 1965/66.

Wheat prices declined some 15 percent from mid-July to early October but recovered slightly by mid-October, always remaining at levels well over the loan. Farm prices averaged \$1.72 per bushel during July-September. The season average price received by farmers in 1966-67 may be around 10 to 20 percent above last year's \$1.34-per-bushel average.

The 1967 national wheat acreage allotment was increased on August 8 by 8.9 million acres. This, together with a previously announced increase, provides a 68.2-million-acre allotment for 1967. The price support loan rate of \$1.25 per bushel and other program features which were announced earlier are unchanged.

Feed Grains

A slightly smaller feed grain crop along with a big reduction in carry-over from last year lowered the 1966/67 feed grain supply to 201 million tons --15 million below 1965/66 and 19 million below the 1960-64 average. Prospects for continued strong domestic and foreign demand in 1966-67 are expected to hold feed grain utilization at close to the record 174 million tons of 1965/66. The crop, estimated on October 1 at 158 million tons, would again fall below total requirements. This would result in a further reduction in the carryover into 1967/68--probably down to around 25 to 30 million tons compared with the 43 million of a year earlier.

Exports of feed grains last year made an unusual increase of more than a third over 1964/65. With larger feed grain crops and exportable surpluses in other countries, U.S. exports of feed grains in 1966/67 are not expected to increase materially from the 29 million tons shipped during the past year.

The 1966/67 corn supply is currently estimated at 4,964 million bushels --7 percent below a year earlier and 9 percent below the 1960-64 average. This year's crop, estimated at 4,097 million bushels on October 1, is only 74 million below the record 1965 crop. The smaller supply is largely due to a 304-million-bushel reduction in the October 1 carryover--down to 866 million, compared with 1,170 million on that date in 1965. Continued heavy utilization during 1966/67 is expected to exceed this year's crop, probably lowering the carryover on October 1, 1967 to around 500 million bushels.

With the smaller supplies and continued strong demand, prices of feed grains this year are expected to average somewhat above those of the last 2 years. The increase from 1965/66 is expected to be much greater in the fall and winter than later in the feeding year.

The 1967 Feed Grain Program is basically the same type of program as in other recent years. An important change in the program from recent years was the elimination of voluntary diversion for payment--except to farmers with small base acreages. Another change is a 5-cent-per bushel increase from 1966 in the price support to \$1.35 for corn, with similar increases for other feed grains. Barley was eliminated from the acreage diversion provisions of the program. The minimum 20 percent diversion is again required for corn and grain sorghums for participation in the program.

The quantity of feed grains under loan and owned by CCC is the lowest in several years. Thus, the quantity of feed grains available for sale by CCC is substantially below that of recent years. With prices expected to average above the loan rates, price support activity for 1966 feed grain crops will again be comparatively light.

The total supply of high-protein feeds available for domestic consumption this year is estimated at close to 18 million tons--slightly above last year and 10 percent above the 1960-64 average. Larger production of soybean meal and most other protein feeds is expected to more than offset much smaller

cottonseed meal production. Strong domestic and export demand likely will continue to give support to protein feed prices in 1966/67.

The hay supply for 1966/67 is estimated at 141 million tons--about the same as last year and slightly above the 1960-64 average. The smaller crop was about offset by the larger May 1 carryover. With prospects for a slight decrease in roughage-consuming livestock, the hay supply per animal unit is estimated at 1.41 tons, slightly larger than in 1965/66 and the average.

Oilseeds, Fats and Oils

The total supply of edible fats, oils, and oilseeds during the 1966/67 marketing year which began October 1 is placed at a record 17.2 billion pounds (oil equivalent of oilseeds). This supply is around 4 percent above the 16.5 billion pounds available last season. The increase results primarily from the record 1966 soybean crop and a prospective increase in lard output. Cottonseed oil production will be down sharply and butter supplies will be smaller. An increase in both domestic use and exports from year ago levels is anticipated, leaving carryover stocks on October 1, 1967, still at relatively low levels.

Total U.S. supplies of soybeans during the marketing year that began September 1 are estimated at a record 963 million bushels, compared with 873 million in 1965/66. Based on October 1 conditions, the 1966 crop was estimated at 927 million bushels, 10 percent above the 844 million last year. Soybean acreage harvested for beans is up 7 percent, and yield prospects, at 25.1 bushels per acre, compared with the 24.4 bushels in 1965.

The demand for soybeans will be substantially increased in 1966/67 over that of 1965/66. Soybean crushings likely will rise primarily because of the strong demand for meal although oil requirements are higher also. Soybean exports may exceed the 1965/66 record of 251 million bushels but the rate will hinge in part on the U.S. level of prices after the fall harvest and the availability of competing oil bearing materials from other countries. Most of the 1966 soybean crop probably will be utilized, and carryover stocks next September 1 may be only slightly larger than the 36 million bushels on September 1, 1966.

Soybean prices received by farmers in 1966/67 are expected to remain strong, averaging well above the 1966 support price of \$2.50 per bushel. In October 1966, prices to growers averaged \$2.78 per bushel, compared with \$2.31 last October. Despite the relatively high prices, farmers are storing large quantities of soybeans this fall, apparently in anticipation of higher prices later on in the season. Last year farmers sold early, moving about three-fourths of the 1965 crop of soybeans off farms by January 1966.

Fruit

Consumer demand for fresh and processed fruit, supported by a continuing growth in income and population, is expected to expand further in 1967. Moderately larger total supplies of fresh and processed fruits are in prospect from now until mid-1967, mainly because of sharply increased citrus production and increased packs of some important canned deciduous fruit items.

Prospective 1966/67 U.S. citrus production is expected to be the largest of record. Moreover, as new plantings of recent years start to bear fruit in volume--especially in Florida and Texas--further gains in citrus production over the next few years are likely. Weather, of course, will largely determine how well production potentials are realized.

The production of early, midseason, and Navel oranges was estimated as of October 1 at 89.6 million boxes. This total is up 23 percent from 1965/66 and it will set a new record. Increased production in Florida and Texas more than offset smaller crops expected in California and Arizona. Prospective 1966/67 production of Florida Valencia oranges is 66 million boxes, 35 percent above last year and considerable larger than the previous high reached in 1961/62, the season preceding the disastrous December 1962 freeze. The 1966/67 grapefruit crop (excluding the usual small summer crop in California) is expected to be up moderately from 1965/66 and considerably above average. In Florida, the leading grapefruit producing State, a crop 13 percent larger than last season's production is indicated.

Harvesting of the 1966/67 Florida citrus crop started later than last season but by early November fresh market movement of grapefruit and oranges was well underway. In view of the anticipated larger production of citrus in 1966/67, price prospects through this winter point to prices below a year ago.

Florida citrus fruit utilization by processors, and fresh market usage, are both expected to increase further in 1966/67. Substantial gains in the packs of processed citrus items, especially frozen orange concentrate, are in prospect. Production of chilled citrus juices, sections, and salads will likely exceed last season's large volume, in view of growing consumer demand for these products. Florida packers' stocks of canned and frozen orange juices this fall are considerably below a year ago but canned and frozen grapefruit juice stocks are substantially larger.

Deciduous fruit production is expected to continue a slow upward trend over the next few years as new trees reach bearing age and better cultural methods are applied. Production in 1967, especially in the Eastern and Central States which suffered from spring freezes and summer droughts in many areas, may be up somewhat. But in the Pacific Coast States where generally favorable weather prevailed this year, 1967 crops may not differ greatly from 1966 levels unless exceptional growing conditions occur. On balance, total U.S. deciduous fruit production in 1967 will likely approximate the 1966 crop. The 1966 noncitrus fruit crop is now practically all harvested. Although 7 percent below 1965, it is still 5 percent above average. Grower prices for most 1966 fruit crops are averaging above 1965 levels.

The 1966/67 pack of canned deciduous fruits will probably be moderately larger than last season's output. Increases in 1966 packs of canned peaches, pears and fruit cocktail will likely more than offset smaller packs of less important items. But output of frozen deciduous fruits may be down somewhat from last year mainly because of a sharp reduction in red tart cherries in the Great Lakes States. Dried fruit production in 1966/67 is also expected to be smaller than last season because of decreases in the production of prunes and raisins.

The 1966 U.S. crop of edible tree nuts is expected to be moderately smaller than the 1965 crop but materially above average. The decrease is due entirely to pecans. Production of almonds, filberts, and walnuts will be substantially larger than last year. Grower prices in 1966 compared with 1965 are expected to be somewhat higher for pecans, about the same for almonds and walnuts, and somewhat lower for filberts.

Prospects for U.S. exports of fresh and processed fruits in 1966/67, especially to European markets, appear less favorable than a year ago because of anticipated larger foreign crops of many fruits regularly exported in substantial volume. Increased supplies of Mediterranean citrus fruits are expected to continue during the coming season. But larger U.S. supplies of fresh oranges, grapefruit, and citrus juices may result in a moderate growth in exports of these items, primarily to Canada. Apple exports may not be quite as heavy as the record volume attained in 1965/66 due to increased production in Western Europe. Dried fruit exports, also, may not match the levels of last season mainly because of sharply reduced U.S. supplies of dried prunes. But movement of canned peaches and fruit cocktail--leading canned fruit export items--may be up somewhat because of substantially increased U.S. output. Tree nut exports are expected to approximate last season's large volume.

Commercial Vegetables

Total supplies of fresh vegetables during the next 6 to 8 weeks are expected to be smaller than a year earlier, with reductions indicated for many major items. Fall celery output is down slightly, and supplies of cabbage, onions, and late-fall lettuce are down substantially. Carrots are the only leading vegetable in larger supply this fall than last. Because of curtailed supplies, markets for fresh vegetables have been strong during most of 1966. Prices likely will remain high through the fall, and average moderately above last year's levels.

Total processed vegetable supplies for the 1966/67 marketing season appear to be about the same as those available last season. The 1966 canned pack was moderately larger than in 1965 but carryover stocks were relatively light. There is a larger supply of sweet corn and cucumber pickles this season than last, but less asparagus, green peas, spinach, and kraut. Supplies of other major items are about the same as a year earlier. Supplies of frozen green peas are much below the burdensome levels of a year ago but supplies of

other frozen vegetables are larger because of increased packs. Markets for both canned and frozen vegetables are strong, with f.o.b. prices averaging around the high prices of last season. No important change is anticipated into mid-1967.

Potatoes and Sweetpotatoes

Supplies of potatoes available for fall and winter marketing probably are close to the record-large supplies of a year ago. As of October 1, fall-crop production was expected to total a little larger than in 1965, with fewer potatoes in the Midwest but more in the East and West. However, harvest of the western crop was running unusually late, and freezing temperatures in mid-October resulted in some damage to unharvested crops. Although total supplies are large, markets are likely to continue strong into mid-winter, with prices averaging moderately above year-earlier levels.

Sweetpotato supplies this season are substantially smaller than the heavy supply of last season, but about average. Production was 13 percent smaller than the big crop in 1965 as a result of less acreage and lower yields. Marketings currently are at a peak; movement will continue large through December, then decline seasonally during next winter and spring. Prices in recent weeks have been materially above those of a year earlier, and for the season, probably will average sharply higher than the low prices that prevailed last season.

Dry Beans and Peas

Dry bean supplies are heavy this season. Although carryover stocks were small, production was more than a fourth above the small crop in 1965, and 11 percent larger than the 1960-64 average. Supplies of all leading classes including pea beans, Great Northerns, pintos, and red kidney beans are considerably larger than last season. Crop quality is reported the best in several years, and both export and domestic use likely will be much above that of last season. Nevertheless, supplies are large relative to market outlets. Prices for 1966-crop beans are expected to average substantially below the high prices of last season.

Because of smaller carryover stocks and a 16 percent decline in production in 1966, supplies of dry peas are down sharply from last season, and the smallest since 1961-62. Prices are much higher than a year earlier, and markets likely will remain strong through the season.

Cotton

A sharp drop in cotton production this year, rising cotton exports, and large mill use point to a significant reduction in U.S. cotton stocks. By next August, stocks may total around 13 million bales, down from the record high of nearly 17 million bales on August 1, 1966.

On October 1, the 1966 crop was estimated at 10.7 million bales. This would be down more than one-fourth from last year's crop. Reduced acreage accounts primarily for the smaller crop. Under the 1966/67 cotton program, producers signed up to divert about 4.6 million acres to soil conserving uses and planted acreage is the smallest in nearly 100 years. The indicated national

yield per harvested acre for the 1966 crop, at 524 pounds, is down 2 pounds from last year's record high of 526 pounds.

Prospects remain strong for a high level of domestic mill consumption of cotton this year. For all kinds of cotton, use may rise to about 9.6 million bales--the most since 1950/51. Factors behind this high level of use include: (1) A high level of general economic activity which is contributing to large civilian purchases of textile products; (2) expanded military requirements for textile products; and (3) a more competitive price position for cotton in relation to rayon and acetate fibers.

The high rate of use in recent months and the low level of mill stocks of cotton cloth in relation to unfilled orders also point to large cotton consumption this year. The rate of cotton use in recent months has been 4 to 5 percent above the same months of last year, while the use of competitive fibers --rayon and acetate--has generally remained near year-earlier levels. The ratio of cloth stocks to unfilled orders has remained at around 0.17 in recent months, slightly below the same months of 1965. Although the rate of increase in unfilled orders has slowed in recent months, cloth inventories have not significantly increased, so the ratio has remained steady.

On a per capita basis, mill consumption in calendar 1966 is estimated at nearly $23\frac{1}{2}$ pounds, up almost 2 percent from 1965 and the largest since 1959. Cotton's share of total fiber consumption, however, is expected to show a further slight decline. Man-made fiber consumption is expected to reach a new record high in 1966--reflecting a sharp rise in the use of non-cellulosic fibers. Estimated 1966 per capita consumption of all fibers, at over $46\frac{1}{2}$ pounds, would be 7 percent above 1965. Consumption in total pounds in 1966 is likely to total about 8 percent above the previous record high in 1965.

U.S. exports of cotton during the 1966/67 crop year are expected to total around 5 million bales, up sharply from 2.9 million bales last year. Factors contributing to this increase include: (1) An expected sharp increase in consumption of cotton in foreign Free World countries resulting from a lower level of world cotton prices this year and cyclical upturn in consumption in some countries; (2) increased net imports of cotton from foreign Free World countries by Communist countries; and (3) only a small increase in production of cotton in Free World countries. Last year, U.S. exports dropped sharply as a result of smaller consumption and increased production in foreign Free World countries.

U.S. imports of cotton textiles have been running at record levels during calendar 1966. Increased demand for cotton textiles in the domestic market and rising prices have contributed to the high level of imports. Imports in July and August, on a cotton equivalent basis, have been at the 100,000-bale per month level. For January-August 1966, imports were 676,000 bales, nearly 40 percent above the same period in 1965. U.S. exports of cotton textiles have remained at low levels thus far this year.

Tobacco

Cigarette output in 1966 is estimated at a record 570 billion--13 billion above 1965 and 30 billion above 1964. Consumption by U.S. smokers is estimated at around 541 billion--a rise of about 2 percent from 1965. The increase results largely from more people of smoking age, high levels of consumer income, and heavier shipments to overseas forces. These factors are likely to continue to influence cigarette consumption in 1967 and result in some further increase. Cigarette consumption per capita (18 years and over) in 1966 seems likely to be nearly 1 percent above 1965 and second only to the 1963 peak.

Consumption of cigars and cigarillos in 1966 is estimated at near 8.5 billion--about 2 percent below 1965 and 7 percent below the record 1964 level. Despite a high level of consumer income and an increase in male population of smoking age, cigar consumption has not gained. Consumption in 1967 may not be markedly different from the estimated 1966 level.

Output of smoking tobacco for pipes and roll-your-own cigarettes is estimated at about 70 million pounds--2½ percent below 1965, and 15 percent below 1964 (when there was an upsurge in sales following the smoking-health report published early that year). Output in 1967 may show relatively little change from 1966. Production of chewing tobacco in 1966 may be a little over 65 million pounds--about equal to 1965. Output of snuff is estimated at 29½ million pounds--only slightly less than in 1965, but 13 percent below 5 years ago. Snuff consumption seems likely to continue a downward trend.

U.S. exports of unmanufactured tobacco in calendar 1966 may be around 525 million pounds, export weight (around 600 million, farm-sales weight)--up more than one-eighth from 1965. In the year ending June 30, 1967, U.S. tobacco exports are likely to increase substantially from 1965/66. Exports of flue-cured--accounting for approximately four-fifths of the total--are expected to exceed 1965/66 by a sizable margin. The quality of the 1966 flue-cured crop is well above average, and the export payment program will provide a stimulus. The widespread ban on the importation of Rhodesian tobacco is increasing takings from the United States, but the duration of this factor is uncertain.

The 1966/67 supply of flue-cured tobacco is about 1 percent below a year earlier and 5 percent below the record level of 1964/65. Carryover on July 1, 1966, dropped 5 percent from the record level of a year earlier, but marketings from the 1966 crop--the second produced under the acreage-poundage program--will be up moderately from the low level of 1965. Domestic use and exports of flue-cured in 1965/66 were both lower than in the preceding year. Approximately nine-tenths of the 1966 flue-cured crop had been sold through early November at an average price of about 68 cents a pound--about 3½ cents above a year earlier and the highest on record. Placements under Government loan for price support have been only 3½ percent of marketings. Heavy sales were made from Government loan stocks during the first 9 months of 1966.

The 1966/67 supply of barley is 4 percent below the comparatively high average level of the preceding 2 years. Carryover is a little lower than the high levels of the last 2 years, and the 1966 crop is indicated to be moderately below the previous year. Domestic use of burley in 1965/66 declined some from the exceptionally large quantity indicated for 1964/65, but exports in 1965/66 were a little above those of a year earlier. Burley auction markets are scheduled to open November 28.

Total 1966/67 supplies of Northern Wisconsin cigar binder and Connecticut Valley shade-grown cigar wrapper are indicated larger than 1965/66, but those of Maryland, fire-cured, Pennsylvania filler, Connecticut Valley binder, Southern Wisconsin binder, and Georgia-Florida shade-grown wrapper are smaller. The 1966/67 supplies of dark air-cured and Ohio filler tobaccos are approximately the same as in 1965/66.

Government price supports are mandatory for tobaccos produced under marketing quotas. The 1966 overall levels of Government price support are up 2 percent from 1965. The year-to-year change in overall support levels is determined by the relationship between the recent 3-year average of the parity index and the 1959 parity index. Available data indicate that overall price support levels for 1967 tobacco will increase 2 percent from 1966. During 1962-65, overall support levels rose about 1 percent a year.

The Secretary of Agriculture is required to announce the amount of the 1967 flue-cured tobacco marketing quota on an acreage-poundage basis by December 1, 1966. Marketing quotas for burley, fire-cured, dark air-cured, sun-cured, Maryland, and certain cigar tobaccos must be announced on an acreage allotment basis by February 1, 1967. Shortly thereafter, referendums will be held for growers of Maryland, fire-cured, and dark air-cured tobaccos to vote on whether they favor marketing quotas and acreage allotments on their 1967-69 crops.

Sugar and Other Sweeteners

Production of beet sugar in the United States may be somewhat larger in 1967 than this year. Inventories of beet sugar have been reduced considerably in 1966 and a moderate increase in output next year seems desirable if supplies of beet sugar are to be maintained at a level adequate to meet requirement provided under the Sugar Act. Production of cane sugar in the mainland and insular areas may not change materially in 1967, although there may be some recovery in Puerto Rico from an unusually small crop this year, caused by adverse weather.

Production of sugar outside the United States probably will be larger in 1966/67 than it was in 1965/66. The principal increases in prospect are in Europe, the USSR, Cuba, and South Africa. The increases in Europe and the USSR are largely the result of higher prospective yields of sugar beets. The situation is similar in South Africa where sugar production in 1965/66 was substantially reduced by an unusually severe drought. The prospective increase in Cuba mostly represents recovery from the relatively small 1965/66 crops. Even so, the Cuban crop is likely to be well below the announced objective of the Government.

Because of a larger than normal increase in deliveries of sugar by primary distributors in the United States in 1966, the increase in 1967 may be somewhat less than usual. During the first 9 months of 1966 sugar deliveries exceeded those for the similar period of 1965 by about 300,000 tons, twice the average annual increase in deliveries during 1960-65. It seems likely that invisible inventories, largely in the hands of industrial food processors, wholesalers, and retailers, have increased appreciably, although precise data are not available. If invisible stocks of sugar should be reduced in 1967, deliveries next year would be affected correspondingly.

U.S. consumption of nonsugar sweeteners continues to increase. Deliveries of corn sirup and dextrose continue to increase slowly, distribution during the first 8 months of 1966 exceeding that for the corresponding period of 1965 by about 3 percent. The proportion of total caloric sweeteners (sugar plus corn sweeteners) distributed in the United States which has been provided by corn sweeteners has increased from about 11 percent in 1956 to 15 percent in 1965. There is no indication of any change in this trend.

Trade reports indicate that the consumption of noncaloric sweeteners, saccharin and cyclamate, has continued to increase in 1966, although at a much slower rate than in 1963 and 1964. Soft drinks continue to provide the most important outlet for these products.

Not all of the noncaloric sweeteners and corn sweeteners used in the United States displace sugar. Some of these products are used for purposes for which sugar is less well suited. Such uses for nonsugar sweeteners tend to increase the total size of the market for sweeteners, rather than substitute one sweetener for another. However, in spite of these factors there is substantial competition among sweeteners and the increasing consumption of nonsugar sweeteners doubtless has resulted in some displacement of sugar, although this has not been sufficient to prevent a relatively slow increase in sugar consumption in this country.

Timber Products

Production of timber products from domestic forests in 1966 is estimated at 11.7 billion cubic feet--3 percent above output in 1965 and 11 percent more than the annual average in the 1956-65 decade.

Net imports of timber products in 1966, including the roundwood equivalent of lumber, plywood, veneer, woodpulp, and paper and board, are expected to reach 1.9 billion cubic feet--11 percent above 1965 imports, and a new high in a trend that has been rising fairly rapidly in the last two decades.

Total consumption of roundwood in 1966, including both industrial wood products and fuelwood, is estimated at 13.4 billion cubic feet. This is 3 percent more than in 1965 and slightly above the record levels attained in the early 1900s, when lumber production was at a peak and large volumes of fuelwood were used for domestic cooking and heating, and industrial and agricultural purposes.

Stumpage prices for timber sold from the National Forests have been moving up since 1962, and this trend continued in the first two quarters of 1966. Stumpage prices for most species are now above the previous highs reached in the mid-1950s. Price increases for hardwood logs have been particularly marked, reflecting in part growing scarcities of the kinds and qualities of logs most in demand for furniture and other timber products.

Lumber production in 1966 is estimated at 37.1 billion board feet. This is 0.2 billion board feet above output in 1965, and 2.3 billion board feet higher than the average of the last decade.

Softwood lumber production in 1966 is estimated at 29.2 billion board feet--about the same as in 1965, but 4 percent above the average for the 1956-65 period.

Hardwood lumber production is estimated at 7.9 billion board feet--slightly above the 1965 level but 18 percent more than the average for the 1956-65 period.

Imports of softwood lumber are expected to total 5.2 billion board feet and exports 0.9 billion board feet in 1966. Imports of hardwood lumber are expected to total 0.4 billion board feet and exports 0.2 billion board feet in 1966.

The wholesale price index of hardwood lumber in August 1966 was 127.5 (1957-59=100). This exceeded the January 1966 level by 6 percent and that of January 1965 by 20 percent.

Pulpwood production in the United States in 1966 is estimated at 55.0 million cords--10 percent greater than in 1965 and 60 percent above output a decade ago. Production of round softwood pulpwood is estimated at 29.2 million cords (up 4 percent from 1965)--round hardwood pulpwood, 11.3 million cords (14 percent more than in 1965)--and chip production from byproducts of wood-using industries, 14.5 million cords (22 percent more than in 1965). During the past 10 years, U.S. consumption of pulpwood has increased at an average annual rate of 4.3 percent--or somewhat more than 1.7 million cords a year.

Pulpwood prices rose from 5 to 10 percent in the latter part of 1965 and early 1966 after some years of relatively constant prices. Prices of southern pine pulpwood, the most important pulping species, rose from about \$16.00 per cord in 1964 to \$17.00 per cord in 1966.

Softwood plywood production in the United States in 1966 is expected to total 13.1 billion square feet (3/8-inch basis)--6 percent more than in 1965.

The wholesale price index for softwood plywood was 82.2 (1957-59=100) in August 1966--5 percent under the 1965 level and 20 percent below the high reached in April 1966. There has been a slow downward trend in softwood plywood prices since the early 1950s.

There is no significant U.S. foreign trade in softwood plywood and consumption is thus roughly equal to domestic production. In the past decade consumption increased at an average annual rate of 10 percent.

The use of southern pine logs for plywood has been growing rapidly since 1964, when the first southern plant started production. There are now 30 plants with a combined annual capacity of almost 2.2 billion square feet of plywood operating or under construction.

Hardwood plywood production in 1966 is estimated at 2.5 billion square feet (surface measure)--about 9 percent above output in 1965 and 50 percent above output in 1956.

The wholesale price index of hardwood plywood in August was 99.2--about 1 percent above the 1965 average. In recent years there has been no significant change in hardwood plywood prices.

Imports of hardwood plywood in 1966 are expected to reach 2.5 billion square feet (surface measure)--about 20 percent over 1965, and more than 3-1/2 times imports a decade ago. Exports are relatively negligible.

Consumption of hardwood plywood in 1966 is estimated at 5 billion square feet. This exceeds 1965 use by 14 percent--about the same as the average annual rate of increase in the 1960s.

Prices of Douglas-fir peeler logs (veneer logs) have shown an upward trend since about 1962. Fragmentary data in State forest product price reports indicate that veneer log prices of other species, especially hardwoods, have also been moving upward. These increases, together with the rapid growth in hardwood plywood and veneer imports, are partly the result of growing difficulties in obtaining domestic veneer logs of the kinds and qualities needed.

Production of miscellaneous industrial roundwood products, i.e., cooperage bolts, poles and piling, fenceposts, mine timbers, box bolts, excelsior bolts, turnery bolts, shingle bolts, charcoal wood, etc., is roughly estimated at 460 million cubic feet in 1966. This is the same as the estimated 1965 production, and represents about 4 percent of all roundwood produced.

Naval Stores

The excess of production over requirements for U. S. rosin, which increased rosin stocks for 6 consecutive years, is expected to be eliminated during the 1966 crop year ending next March 31. Stocks next March 31 should be significantly lower than a year earlier. The reversal in the rosin situation stems mainly from increased production costs and lower world prices which have reduced production here and abroad. At the same time, utilization of domestic rosin has increased, particularly for export.

The turpentine situation should continue firm at present or slightly higher price levels, notwithstanding an apparent but deceptive buildup in stocks. Practically all of the increase is in stocks of sulfate turpentine which is being reserved for captive consumption and is virtually unobtainable in the market.

Rosin production in 1966 is expected to decline about 7 percent from 1965, to about 1,925,000 drums, the lowest since 1959. A 3 percent reduction is likely in turpentine output, to about 679,000 barrels. Lower production of gum and steam distilled wood naval stores should more than offset increased sulfate naval stores output.

Domestic usage and exports of rosin are expected to rise in 1966 to the highest level since the end of World War II, excepting the crop years 1950 and 1959. Use is increasing gradually throughout the world. There are 5 major rosin markets--paper, rubber, adhesives, printing inks, and protective coatings. About 40 percent of U. S. usage currently is in paper.

Disappearance of U.S. turpentine will be lower in 1966, mainly because of reduced production and retail sales. However, long-term outlook for turpentine requirements for industrial use is in excess of prospective production.

The rosin carryout next March 31 should be down 11 percent to about 1.1 million drums. The turpentine carryout probably will be higher.

Under the anticipated conditions of supply and utilization, and considering that the support level for crude pine gum will be unchanged for 1967, both rosin and turpentine domestic prices are expected to continue firm. Expanding industrial utilization in 1967 may result in some upward pressure on turpentine prices.

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